

## Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 EA-07 ISO-00 AID-05 CEA-01 CIAE-00  
COME-00 EB-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00  
USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04 EPG-02  
SIL-01 AGRE-00 OMB-01 XMB-02 SS-15 NSC-05 STR-04  
PRS-01 /122 W

-----004629 300814Z /12

R 291638Z JUN 77

FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 1959  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY CARACAS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY MADRID  
AMCONSUL OPORTO  
AMEMBASSY OSLO  
AMEMBASSY OTTAWA  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 4996

DEPT PASS TREASURY FOR SYVRUD

BRUSSELS FOR EC

PARIS ALSO FOR OECD

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E.O. 11652: N/A

TAGS: EFIN, PFOR, PO

SUBJECT: FINANCE MINISTER EXPLAINS FINANCIAL ASSISTANCE

REF: (A) LISBON 4990 (NOTAL, (B) PARIS 18443 (NOTAL)

BEGIN SUMMARY: GOP FINANCE MINISTER ON JUNE 28 DEFENDED

FOREIGN FINANCIAL ASSISTANCE AGAINST RECENT CRITICISM FROM BOTH LEFT AND RIGHT. HE CHARACTERIZED LOANS AS EXPRESSION OF FOREIGN CONFIDENCE IN PORTUGAL. MINISTER EMPHASIZED THAT LOANS WILL NOT IN THEMSELVES RESOLVE COUNTRY'S PROBLEMS, BUT WILL ENABLE IT TO MOVE TOWARD STABILIZATION. END SUMMARY.

1. FINANCE MINISTER MEDINA CARREIRA IN JUNE 28 RADIO-TV SPEECH (ALSO SEE REF A) EXPLAINED RECENTLY ANNOUNCED FOREIGN FINANCIAL ASSISTANCE TO PORTUGAL (REF B). MINISTER EMPHASIZED THAT LOANS REPRESENT A "FIRM BET" WHICH, THROUGH THE PERSONAL EFFORTS OF THE PRESIDENT OF THE UNITED STATES HIMSELF, A NUMBER OF FRIENDLY COUNTRIES HAVE MADE ON PORTUGAL. THE MINISTER STATED THAT ELEVEN COUNTRIES HAD COMMITTED THEMSELVES TO FINANCIAL ASSISTANCE, WHILE FOUR OTHERS ARE CONSIDERING IT. HE WELCOMED ANY OTHER COUNTRY WILLING TO LEND TO PORTUGAL ON SIMILAR CONDITIONS. THE MINISTER INDICATED THAT LOANS REPRESENT INTERNATIONAL RECOGNITION OF "ADMIRABLE QUALITIES" OF PORTUGUESE PEOPLE, UNHAPPY CONSEQUENCES OF DECOLONIZATION, AND GOVERNMENT'S COURAGE AND TENACITY IN BUILDING A NEW SOCIETY, PARTICULARLY IN MAINTAINING A POLICY OF "AUSTERITY AND TRUTH."

2. CARREIRA EXPLAINED THAT THE LOANS UNDER THE ANNOUNCED PACKAGE WERE BEING GIVEN BY GOVERNMENTS OR BY THEIR RESPECTIVE BANKING SYSTEMS UNDER STATE GUARANTEES. ALTHOUGH THE LOANS DIFFER IN DETAIL, THEY SHARE THE FOLLOWING LIMITED OFFICIAL USE

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COMMON CHARACTERISTICS:

- MEDIUM-TERM (5 TO 10 YEARS)
- NOT TIED TO PURCHASES IN LENDING COUNTRY.
- NOT GUARANTEED BY PORTUGUESE GOLD.
- INTEREST RATES NOT SUBSIDIZED.

WHILE THESE LOANS ARE BEING DISBURSED, PORTUGAL WILL HAVE TO NEGOTIATE A SECOND IMF TRANCHE OF \$50 MILLION, WHICH WILL INCLUDE A PLAN FOR ECONOMIC STABILIZATION. IN ORDER TO COMPLETELY COVER EXPECTED PAYMENTS DEFICIT OVER THE NEXT 18 MONTHS, GOP EXPECTS TO USE FUNDS FROM THE IMF SECOND TRANCHE, FOREIGN EQUIPMENT EXPORT FINANCING, AND LOANS FROM INTERNATIONAL COMMERCIAL BANKS. IN THE FOLLOWING 18 MONTH PERIOD THE COUNTRY WILL HAVE TO NEGOTIATE NEW LOANS FROM THE IMF.

3. FINANCE MINISTER DESCRIBED PORTUGAL'S FOREIGN EXCHANGE PROBLEM AS THE "GRAVEST AND MOST LIMITING" OF ANY OF THE COUNTRY'S POLITICAL CONSTRAINTS. HE EMPHASIZED, HOWEVER, THAT PORTUGAL IS NOT THE ONLY COUNTRY WITH SUCH PROBLEMS. SPAIN, GREECE, FINLAND, AUSTRIA AND TURKEY ALSO FACE MAJOR DIFFICULTIES, AND MORE POWERFUL COUNTRIES SUCH AS FRANCE, CANADA, UK AND ITALY HAVE NOT ESCAPED

THE PHENOMENON. DUE TO INTERNATIONAL ECONOMIC CRISIS,  
PORTUGAL WOULD HAVE SUFFERED IN ANY CASE. IN  
ADDITION, HOWEVER, THE APRIL 25 REVOLUTION, WITH ALL  
ITS "STRUCTURAL" CONSEQUENCES, REDUCED THE COUNTRY'S  
ABILITY TO EXPORT. MOREOVER, THE INFLUX OF REFUGEES  
REQUIRING EVERYTHING CREATED GREAT PRESSURE ON IMPORTS.

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LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 4996

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PORTUGAL'S EX-COLONIES, WHICH TOOK 25 PERCENT OF THE COUNTRY'S EXPORTS IN 1970, BOUGHT ONLY 5 PERCENT OF ITS EXPORTS IN 1976. IN MANY CASES PORTUGUESE "BUSINESS STRUCTURES" WERE INCAPABLE OF MAINTAINING COMPETITIVITY. TODAY SOME MERELY "VEGETATE" WITH STATE ASSISTANCE.

4. CARREIRA ENDED BY ANSWERING CRITICISMS ABOUT THE COUNTRY'S DEPENDENCE ON FOREIGN LOANS BY NOTING THAT THE CRISIS, INCREASING EVER SINCE 1973, WAS POSTPONED ONLY BY DRAWING DOWN FOREIGN EXCHANGE. THE FIRST CLEAR SIGN OF THE GREAT CRISIS WAS THE MAY 1975 \$250 MILLION LOAN FROM THE BIS. HE DENOUNCED THE HYPOTHEESIS OF THE COUNTRY'S CEASING PAYMENTS OR VERTICALLY REDUCING IMPORTS, NOTING THAT AROUND 90 PERCENT OF THE COUNTRY'S IMPORTS ARE INDISPENSABLE. WHILE LOANS IN THEMSELVES WILL NOT RESOLVE THE COUNTRY'S PROBLEMS, CARREIRA SAID, THEY WILL ENABLE THE COUNTRY TO MOVE TOWARD STABILIZATION AND BEGIN TO MODERATE ITS EXTERNAL DEPENDENCE. SUCH A CHANGE WILL REQUIRE SUBSTANTIAL MODIFICATION IN LIFESTYLES.

5. COMMENT: THIS REPRESENTS MOST THOROUGH-GOING GOP ATTEMPT TO OFFSET ATTACKS ON THE LOANS FROM BOTH THE LEFT AND THE RIGHT. CARREIRA'S EXPOSITION OF THE COUNTRY'S SEVERE BALANCE OF PAYMENTS DIFFICULTIES WAS CONSISTENT WITH WHAT THE GOVERNMENT HAS SAID OVER THE PAST YEAR.  
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## Message Attributes

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**Channel Indicators:** n/a  
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**To:** STATE  
**Type:** TE  
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22 May 2009  
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